ARTESIAN VALLEY HEALTH SYSTEM

a/k/a MEADE HOSPITAL DISTRICT

FINANCIAL STATEMENTS

and

ADDITIONAL INFORMATION

with

INDEPENDENT AUDITOR'S REPORT

YEARS ENDED DECEMBER 31, 2010 AND 2009

George, Bowerman & Noel, P.A.
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Artesian Valley Health System
a/k/a Meade Hospital District
Meade, Kansas

We have audited the financial statements of the Artesian Valley Health System a/k/a Meade Hospital District (the System), as listed in the table of contents, at and for the years ended December 31, 2010 and 2009. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Artesian Valley Health System a/k/a Meade Hospital District as of December 31, 2010 and 2009, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the schedules of budgetary comparison information for the operation and maintenance fund, employee benefits fund, and the debt service fund, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

George, Bowerman & Noel, P.A.

Wichita, Kansas
June 15, 2011

ARTESIAN VALLEY HEALTH SYSTEM

a/k/a MEADE HOSPITAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Artesian Valley Health System a/k/a Meade Hospital District (the System's) financial performance provides an overview of the System's financial activities for the fiscal years ended December 31, 2010 and 2009. Please read it in conjunction with the System's financial statements, which begin on page 7.

Financial Highlights

- The System's net assets decreased in 2010 by $366,908 or 7.59 percent compared to a decrease in 2009 of $326,430 or 6.32 percent.
- Contractual allowances, charity care and bad debts reduced gross patient service revenue by $3,479,924 or 22.02 percent of gross patient service revenue in 2010 and by $4,663,644 or 24.93 percent of gross patient service revenue in 2009.
- The System reported an operating loss in both 2010 ($1,264,235) and 2009 ($1,201,741). The operating loss in 2010 increased by $62,494 or 5.20 percent from the loss reported in 2009. The operating loss in 2009 decreased by $73,928 or 2.80 percent over the loss reported in 2008.
- Net nonoperating revenues/expenses increased by $22,016 or 2.52% percent in 2010 compared to a decrease in 2009 of $287,510 or 24.73%. The significant decrease in 2009 was due primarily to decreases in grants and contribution revenues.
- The System entered into a capital lease agreement to acquire imaging equipment for $371,489 in 2009.

Financial Statements

The System's financial statements are prepared using proprietary fund accounting that focuses on the determination of changes in net assets, financial position and cash flows in a manner similar to private-sector businesses. The financial statements are prepared on an accrual basis of accounting which recognizes revenue when earned and expenses when incurred. The basic financial statements include a *balance sheet*, *statement of revenue, expenses and changes in net assets*, and *statement of cash flows*, followed by notes to the financial statements and schedules of certain additional information.

The *balance sheet* presents information on the System's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may indicate whether the financial position of the System is improving or deteriorating.

The *statement of revenues, expenses and changes in net assets* presents both the operating revenues and expenses and nonoperating revenues and expenses along with other changes in net assets for the year. This statement is an indication of the success of the System's operations over the past year.

The *statement of cash flows* presents the change in cash and cash equivalents for the year resulting from operating activities, capital and related financing activities and investing activities. The primary purpose of this statement is to provide information about the System's cash receipts and cash payments during the year.

Financial Position

The information below summarizes the System's net assets as of December 31, 2010, 2009 and 2008.

	December 31,		
	2010	2009	2008
Assets:			
Current assets	$ 5,289,258	$ 5,433,945	$ 6,312,447
Capital assets, net	7,158,046	7,627,941	7,764,774
Other noncurrent assets	123,520	141,882	160,859
Total assets	$12,570,824	$13,203,768	$14,238,080
Liabilities:			
Long-term liabilities	$ 5,406,404	$ 5,896,811	$ 6,058,305
Other liabilities	2,695,813	2,471,442	3,017,830
Total liabilities	$ 8,102,217	$ 8,368,253	$ 9,076,135
Net assets:			
Invested in capital assets, net	$ 1,284,292	$ 1,276,020	$ 1,344,774
Restricted	404,476	420,118	427,823
Unrestricted	2,779,839	3,139,377	3,389,348
Total net assets	$ 4,468,607	$ 4,835,515	$ 5,161,945

Recent Financial Performance

The schedule below is a summary of the System's revenues, expenses and changes in net assets for the years ended December 31, 2010, 2009 and 2008.

	Year ended December 31,		
	2010	2009	2008
Operating revenue	$12,382,706	$ 14,111,930	$ 13,455,984
Operating expenses:			
Salaries	7,114,527	7,992,771	7,394,100
Employee benefits	1,966,366	1,957,131	1,575,078
Supplies and other	3,731,751	4,524,006	4,810,981
Depreciation and amortization	834,297	839,763	951,494
Total operating expenses	13,646,941	15,313,671	14,731,653
Operating loss	(1,264,235)	(1,201,741)	(1,275,669)
Nonoperating revenues (expenses):			
Taxes	976,489	978,676	1,088,985
Investment income	17,923	71,282	72,288
Interest expense	(235,965)	(252,784)	(281,516)
Grants and contributions	47,320	38,860	205,176
Other, net	91,560	39,277	77,888
Total nonoperating revenues (expenses)	897,327	875,311	1,162,821
Decrease in net assets	$ (366,908)	$ (326,430)	$ (112,848)
Net assets at end of year	$ 4,468,607	$ 4,835,515	$ 5,161,945

The first component of the overall change in the System's net assets is its operating income (loss)—generally, the difference between net patient service revenue and the expenses incurred to perform those services. In each of the past three years, the System has reported an operating loss. This is consistent with the System's entire operating history. The operating loss in 2010 increased by $62,494 or 5.20 percent lower than the operating loss reported in 2009. The operating loss in 2009 decreased by $73,928 or 5.80 percent lower than the operating loss reported in 2008.

The rate of healthcare inflation has a direct effect on the cost of services provided by the System. A component of the System's costs are expenses for medical supplies and prescription drugs. Some of the major factors contributing to the increased medical supply and drug costs include the introduction of new drugs that cannot be obtained in generic form, and changes in therapeutic mix. These factors limit the System's ability to decrease supply costs.

Nonoperating revenues and expenses consist primarily of property taxes levied by the System, interest expense on long-term debt, and grants and contributions.

Capital Assets

At the end of 2010, the System had $7,158,046 invested in capital assets, net of accumulated depreciation, as detailed in Note 9 to the financial statements. In 2010, the System purchased additional capital assets costing $343,040. Of this, approximately $184,000 consisted of hardware and software relating to the implementation electronic health record systems. In 2009, the System acquired additional capital assets costing $683,953. Of this, $371,489 for a CT machine was acquired through a capital lease.

Debt

At December 31, 2010, the System had $5,225,000 of general obligation bonds outstanding that had been issued to finance the construction of the new facility that opened in 2004. In addition, the System had $405,000 of certificates of participation outstanding that had been issued in 2005 to finance the acquisition of a local nursing home facility to be utilized as a long-term care unit.

As noted above, the System also leases CT equipment under a capital lease agreement with a remaining outstanding balance of approximately $244,000 at December 31, 2010.

Other Economic Factors

The assessed valuation for the System for 2011 is $83,005,621 a decrease of $12,088,446 over the 2010 assessed valuation amount of $95,094,067. The total taxes levied for 2011 was $933,749 compared to $938,104 for 2010.

In June 2010, a staff physician terminated his employment with the System to pursue other opportunities. Accordingly, a significant decrease in patient service revenue was incurred by the System. Management anticipated a reduction in patient volumes and has implemented strategies to address staffing levels and other operating expenses to adapt to lower volume levels expected in the near term. Management believes that the existing levels of physician and mid-level professional staff are sufficient to absorb increases in patient volumes and accordingly, anticipates patient service revenues to return to previous levels.

Issues Facing the System

There are issues facing the System that could result in material changes in its financial position in the long term. Among these issues are:

- Risks related to Medicare and Medicaid reimbursement. A significant portion of the System's revenues are derived from the Medicare program, which provides certain healthcare benefits to beneficiaries who are over 65 years of age or disabled, and the Medicaid program, funded jointly by the federal government and the states, which provides medical assistance to certain needy individuals and families. The funding of these programs by the federal and state governments face increasing pressure due to the significant increases in the costs of providing healthcare services in recent years.

- Healthcare reform. In 2010, the federal government enacted sweeping new legislation that will significantly impact virtually all aspects of the healthcare delivery and insurance systems in the country. Portions of the legislation will be implemented over the next several years. However, most of the detailed implemented regulations have not yet been issued and accordingly, any specific effects on operations of the System are currently undeterminable. Management continues to closely monitor the progression of the implementation of the legislation.

- Employment and labor issues. The System is a major employer within the community, employing a complex mix of professional, technical, clerical, maintenance, dietary, and other workers. Risks include personal tort actions, work-related injuries and exposure to hazardous materials. A relative shortage of nursing and other medical professional/technical employees, is an issue that is causing salary and benefits costs to increase at significant rates.

- Technology and services. Scientific and technological advances, new procedures, drugs and appliances, preventive medicine, and outpatient healthcare delivery may reduce utilization and revenues for the System in the future. Technological advances continue to accelerate the need to acquire sophisticated and expensive equipment and services for diagnosis and treatment of illnesses and diseases.

  As part of the new legislation passed in 2009 and 2010, the federal government is providing financial incentives to healthcare providers to join in implementing a national electronic health record (EHR) system. Accordingly, the System has incurred significant expenditures for hardware and software to meet the requirements for the program. It is expected that the System will have its EHR system implemented and approved for the program within the next year.

- Increasing numbers of uninsured and underinsured patients. Due to the significant increases and high cost of healthcare insurance premiums in recent years, increasing numbers of patients of the System are finding it more and more difficult to obtain or maintain adequate health insurance coverage. This trend could increase the levels of uncompensated care provided by the System.

Contacting The System's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the System's finances and to show the System's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Administration Department, at 510 E. Carthage, Meade, Kansas, 67864.

ARTESIAN VALLEY HEALTH SYSTEM

a/k/a MEADE HOSPITAL DISTRICT

BALANCE SHEETS

ASSETS

	December 31,	
	2010	2009
Current assets:		
Cash (Notes 1 and 3)	$ 2,542,830	$ 2,047,879
Accounts receivable, net of allowance for doubtful accounts of $787,537 in 2010 and $807,054 in 2009	1,327,487	1,486,873
Uncollected current property taxes receivable (Note 1)	915,440	893,432
Other receivables	38,765	34,941
Estimated third-party payer settlements (Note 2)	–	513,311
Inventories (Note 1)	387,255	408,054
Prepaid expenses	77,481	49,455
Total current assets	5,289,258	5,433,945
Property and equipment, at cost (Notes 1, 4 and 9):		
Land	86,142	86,142
Land improvements	1,278,116	1,278,116
Buildings and fixed equipment	7,679,300	7,669,538
Movable equipment	5,302,282	4,966,004
Total property and equipment	14,345,840	13,999,800
Less accumulated depreciation	7,187,794	6,371,859
Net property and equipment	7,158,046	7,627,941
Other assets:		
Debt issuance cost – net of accumulated amortization of $42,529 in 2010 and $35,555 in 2009 (Note 1)	35,621	42,595
Deferred loss on refunding – net of accumulated amortization of $45,256 in 2010 and $33,868 in 2009 (Notes 1 and 4)	87,899	99,287
Total other assets	123,520	141,882
Total assets	$ 12,570,824	$ 13,203,768

LIABILITIES AND NET ASSETS

	December 31, 2010	December 31, 2009
Current liabilities:		
Accounts payable	$ 332,403	$ 145,177
Salaries and payroll taxes payable	265,527	304,742
Estimated third-party payer settlements (Note 2)	82,878	–
Current portion of compensated absences payable (Note 1)	520,143	553,375
Current portion of long-term debt (Note 4)	489,023	478,167
Accrued interest payable	90,399	96,549
Unearned revenue - uncollected current property taxes receivable (Note 1)	915,440	893,432
Total current liabilities	2,695,813	2,471,442
Long-term debt (Note 4)	5,384,731	5,873,754
Compensated absences payable (Note 1)	21,673	23,057
Total non-current liabilities	5,406,404	5,896,811
Total liabilities	8,102,217	8,368,253
Net assets (Notes 1 and 7):		
Invested in capital assets net of related debt	1,284,292	1,276,020
Restricted – expendable for specific operating activities	404,476	420,118
Unrestricted	2,779,839	3,139,377
Total net assets	4,468,607	4,835,515
Total liabilities and net assets	$ 12,570,824	$ 13,203,768

The accompanying notes are an integral part of the financial statements.

ARTESIAN VALLEY HEALTH SYSTEM

a/k/a MEADE HOSPITAL DISTRICT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	Year ended December 31,	
	2010	2009
Operating revenues:		
Net patient service revenue (Note 1)	$ 12,322,030	$ 14,046,067
Other	60,676	65,863
Total operating revenues	12,382,706	14,111,930
Operating expenses:		
Salaries	7,114,527	7,992,771
Employee benefits	1,966,366	1,957,131
Purchased services	590,172	717,767
Medical supplies and drugs	1,122,945	1,295,087
Other supplies and expense	2,018,634	2,511,152
Depreciation and amortization	834,297	839,763
Total operating expenses	13,646,941	15,313,671
Operating loss	(1,264,235)	(1,201,741)
Nonoperating revenues (expenses):		
Taxes for operations	436,066	432,794
Taxes for debt service	540,423	545,882
Investment income	17,923	71,282
Interest expense	(235,965)	(252,784)
Noncapital grants and contributions	47,320	38,860
Other	91,560	39,277
Total nonoperating revenues	897,327	875,311
Decrease in net assets	(366,908)	(326,430)
Net assets at beginning of year	4,835,515	5,161,945
Net assets at end of year	$ 4,468,607	$ 4,835,515

The accompanying notes are an integral part of the financial statements.

ARTESIAN VALLEY HEALTH SYSTEM

a/k/a MEADE HOSPITAL DISTRICT

STATEMENTS OF CASH FLOWS

	Year ended December 31,	
	2010	2009
Cash flows from operating activities:		
Receipts from and on behalf of patients	$ 13,077,605	$ 13,092,442
Payments to suppliers and contractors	(5,521,942)	(6,357,697)
Payments to employees	(7,188,358)	(7,961,363)
Other receipts and payments, net	60,676	65,863
Net cash flows provided (used) by operating activities	427,981	(1,160,755)
Cash flows from noncapital financing activities:		
Property taxes for operations	436,066	432,794
Grants and contributions	47,320	38,860
Other	91,560	39,277
Net cash flows provided by noncapital financing activities	574,946	510,931
Cash flows from capital and related financing activities:		
Property taxes for debt service	540,423	545,882
Principal payments on long-term debt	(478,167)	(439,568)
Interest paid on long-term debt	(242,115)	(262,072)
Purchases of capital assets	(346,040)	(312,464)
Net cash flows used by capital and related financing activities	(525,899)	(468,222)
Cash flows from investing activities – Investment income	17,923	71,282
Net increase (decrease) in cash and cash equivalents	494,951	(1,046,764)
Cash and cash equivalents at beginning of year	2,047,879	3,094,643
Cash and cash equivalents at end of year	$ 2,542,830	$ 2,047,879

ARTESIAN VALLEY HEALTH SYSTEM

a/k/a MEADE HOSPITAL DISTRICT

STATEMENTS OF CASH FLOWS - continued

	Year ended December 31,	
	2010	2009
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (1,264,235)	$ (1,201,741)
Adjustments to reconcile operating loss to net cash flows used in operating activities:		
Depreciation and amortization	834,297	839,763
Provision for doubtful accounts	425,860	503,131
Net (increases) decreases in current assets:		
Accounts receivable	(266,474)	(324,658)
Property taxes receivable	(22,008)	22,639
Inventories	(3,824)	35,027
Estimated third-party payor settlements	513,311	(513,311)
Other current assets	(7,227)	108,910
Net increases (decreases) in current liabilities:		
Accounts payable	181,076	(29,785)
Compensated absences payable	(34,616)	(6,185)
Salaries and wages payable	(39,215)	37,593
Estimated third-party payor settlements	82,878	(618,787)
Accrued interest payable	6,150	9,288
Unearned revenue-uncollected current property taxes	22,008	(22,639)
Net cash provided (used) by operating activities	$ 427,981	$ (1,160,755)

The accompanying notes are an integral part of the financial statements.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations and reporting entity

Meade Hospital District (the District) is a political subdivision of the state of Kansas organized under the hospital district statutes of the state. The District owns and operates the Artesian Valley Health System (the System). The System is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

The System operates an acute care hospital, long-term care unit, and rural health clinic and is located in Meade, Kansas. The System primarily earns revenues by providing inpatient, outpatient, emergency care, long-term care, physician clinic, and home health services to patients in the Meade County, Kansas area.

Basis of accounting and presentation

The financial statements of the System have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place. Operating revenues and expenses include exchange transactions. Property taxes, investment income, interest on capital assets-related debt are included in nonoperating revenues and expenses.

The System prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the System has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Grants and contributions

From time to time, the System receives grants and contributions from government agencies, private organizations, and individuals. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses. When the System has both restricted and unrestricted resources available to finance a particular program, it is the System's policy to use restricted resources before unrestricted resources.

Allowance for doubtful accounts

Accounts receivable (Note 6) is presented net of an allowance for doubtful accounts. The allowance is estimated based on multiple factors including historical experience with bad debts, the aging of receivables, payor mix trends, and local economic conditions. If future actual default rates on accounts receivable in general differ from those currently anticipated, the System may have to adjust its allowance for doubtful accounts, which would affect earnings in the period the adjustments are made.

Cash and cash equivalents

For purposes of the statement of cash flows, the System includes checking accounts, certificates of deposit, savings accounts and NOW accounts as cash and cash equivalents.

Budgetary principles

The System is required by state statute to adopt annual budgets using the modified accrual basis of accounting for the operation and maintenance, employee benefits and debt service funds on or before August 25 of the preceding year. The System's Board of Directors may amend the budget by transferring budgeted amounts from one object or purpose to another within the same fund. Expenditures may not legally exceed the total mount of the adopted budget of individual funds.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Under the modified accrual basis of accounting revenues are recognized when they become both measurable and available to finance expenditures of the current period. Expenditures are recognized when the related fund liability is incurred.

Applicable Kansas statutes require the use of an encumbrance system as a management control technique to assist in controlling expenditures. For budgetary purposes, encumbrances of the budgeted fund types, representing purchase orders, contracts and other commitments, are reported as a charge to the current year budget. All unencumbered appropriations lapse at the end of the year. There were no material encumbrances at December 31, 2010 and 2009. Budgeted revenue and expenditure amounts represent the original budget adopted by the System's Board of Directors.

The following reconciliation is presented to provide a correlation between the different bases of accounting for reporting in accordance with generally accepted accounting principles (GAAP) and for reporting on the budgetary basis:

	Operation and Maintenance Fund	Employee Benefit Fund	Debt Service Fund
GAAP basis net assets at December 31, 2010	$ 4,071,206	$ –	$ 397,401
Adjustments:			
Net property and equipment	(7,158,046)	–	–
Debt issuance cost	(35,621)	–	–
Deferred loss on refunding	(87,899)	–	–
Accrued interest payable	90,399	–	–
Net long-term debt	5,873,754	–	–
Budgetary basis fund balance at December 31, 2010	$ 2,753,793	$ –	$ 397,401

Inventories

Inventories are stated at cost as determined by the first-in, first-out method.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property taxes receivable

In accordance with governing statutes, property taxes levied during the current year are a revenue source to be used to finance the budget of the ensuing year. Taxes are assessed on a calendar year basis and become a lien on the property on November 1st of each year. The County Treasurer is the tax collection agent for all taxing entities within the County. Property owners have the option of paying one-half or the full amount of the taxes levied on or before December 20th during the year levied with the balance to be paid on or before May 10th of the ensuing year. State statutes prohibit the County Treasurer from distributing taxes collected in the year levied prior to January 1st of the ensuing year. Consequently, for revenue recognition purposes, the taxes levied during the current year are not due and receivable until the ensuing year. At December 31 such taxes are a lien on the property and are recorded as taxes receivable, net of anticipated delinquencies, with a corresponding amount recorded as unearned revenue on the balance sheet.

Capital assets

The System's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using these asset lives:

Land improvements	15 to 20 years
Building and fixed equipment	5 to 40 years
Movable equipment	5 to 20 years

Maintenance and repairs are charged to expense and renewals and expenditures for improvements are capitalized.

Net patient service revenue

The System has agreements with third-party payers that provide for payments to the System at amounts different from its established rates. Payment arrangements include prospectively determined rates per episode, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such estimated amounts are revised in future periods as adjustments become known.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Charity care

The System provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the System does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Operating revenues and expenses

The System's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the System's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Net assets

Net assets of the System are classified in three components. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted – expendable for specific operating activities* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the System. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt* or *restricted.*

Compensated absences payable

Employees of the System are entitled to paid time off depending on the length of service and whether they are full or part time. Upon resignation, termination or retirement from service with the System, employees with six or more months of employment are entitled to payment for all accrued hours, up to the allowable maximum. The System accrues paid time off benefits as earned.

Risk management

The System is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The System carries commercial insurance for all risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the three preceding years. The System also purchases professional liability insurance to cover medical malpractice claims. Management is not aware of any asserted or unasserted claims or incidents arising from services provided to patients.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred debt related cost

Debt issuance costs and loss on refunding are being amortized over the life of the general obligation bonds and certificates of participation, as appropriate, using the interest method.

Subsequent events

Subsequent events have been evaluated through June 15, 2011, which is the date the financial statements were available to be issued.

2. ESTIMATED THIRD-PARTY PAYER SETTLEMENTS

The System has agreements with third-party payers that provide for payments to the System at amounts different from its established rates. These payment arrangements include:

- **Medicare** – Inpatient, outpatient, and clinic services are paid based on cost reimbursement methodologies. The System is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the System and reviews thereof by the Medicare fiscal intermediary. Home health services are paid on prospectively determined rates per episode. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The System's classification of patients under the Medicare program and appropriateness of their admission are subject to an independent review by a peer review organization under contract with the System. The System's Medicare cost reports have been reviewed by the Medicare fiscal intermediary through December 31, 2008.

- **Medicaid** – The System is reimbursed under a cost reimbursement methodology for inpatient acute and outpatient services. The System is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the System and reviews thereof by the Medicaid fiscal intermediary.

  Inpatient long-term care services for 2010 and 2009 are paid at prospectively determined per diem rates that are based on the patient's acuity.

Approximately 47% and 52% of net patient service revenue is from participation in the Medicare program for the years ended December 31, 2010 and 2009, respectively. Laws and regulations governing the Medicare program are complex and subject to interpretation and change, As a result, it is reasonably possible that recorded estimates will change materially in the near term.

2. ESTIMATED THIRD-PARTY PAYER SETTLEMENTS (continued)

The System has also entered into payment agreements with certain commercial insurance carriers and other third-party payer programs. The basis for payment to the System under these agreements includes prospectively determined rates per discharge, discounts from established charges and cost reimbursement.

3. CASH AND INVESTED CASH

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the System's deposits may not be returned or the System will not be able to recover collateral securities in the possession of an outside party. The System's policy follows applicable State statutes and requires deposits to be 100% secured by collateral (pledged securities) valued at market, less the amount of the Federal Deposit Insurance Corporation (FDIC) insurance. State statutes define the allowable types of pledged securities.

The System's cash and investments at December 31, 2010 consisted of demand deposit, certificates of deposit, NOW, and savings accounts. At year end, the carrying amount of the System's deposits, which approximates their fair value, was $2,542,667 with the bank balances of such accounts being $2,667,627. Of the bank balances, $631,805 was secured by federal depository insurance and the remaining balance of $2,035,822 was covered by collateral held by the System's custodial banks in joint custody in the name of the System and its banks. The market value of those pledged securities held by the System's custodial banks was $2,539,262 at December 31, 2010.

The remaining carrying amount of the System's cash and investments at December 31, 2010 consisted of cash on hand of $163.

Investment policies

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The System does not have a formal investment policy. Investing activities are managed under the custody of the System's Chief Executive Officer and at the direction of the Board of Directors and in compliance with State statutes.

Applicable state statutes authorize the System to invest in (1) temporary notes or no-fund warrants issued by the System (2) time deposit, open accounts or certificates of deposit, with maturities of not more than two years, in commercial banks; (3) time certificates of deposit, with maturities of not more than two years, with state or federally chartered savings and loan associations or federally chartered savings banks, (4) repurchase agreements with commercial banks, state or federally chartered savings and loan associations or federally chartered savings banks; (5) United States treasury bills or notes with maturities as the governing body shall determine, but not exceeding two years; (6) the municipal investment pool maintained by the State Treasurer's office, and (7) trust departments of commercial banks.

4. LONG-TERM DEBT AND OTHER NONCURRENT LIABILITIES

The following is a summary of changes in long-term debt and other noncurrent liabilities for the years ended December 31, 2010 and 2009:

	Balance At December 31, 2009	Additions	Reductions	Balance At December 31, 2010	Amounts Due Within One Year
Bonds and capital lease obligations:					
General obligation bonds	$5,560,000	$ –	$ 335,000	$5,225,000	$ 340,000
Capital lease obligations	791,921	–	143,167	648,754	149,023
	6,351,921	–	478,167	5,873,754	489,023
Other liabilities:					
Compensated absences payable	576,432	561,557	596,173	541,816	520,143
Total noncurrent liabilities	$6,928,353	$ 561,557	$1,074,340	$6,415,570	$ 1,009,166

	Balance At December 31, 2008	Additions	Reductions	Balance At December 31, 2009	Amounts Due Within One Year
Bonds and capital lease obligations:					
General obligation bonds	$5,875,000	$ –	$ 315,000	$5,560,000	$ 335,000
Capital lease obligations	545,000	371,489	124,568	791,921	143,167
	6,420,000	371,489	439,568	6,351,921	478,167
Other liabilities:					
Compensated absences payable	582,617	586,845	593,030	576,432	553,375
Total noncurrent liabilities	$7,002,617	$ 958,334	$1,032,598	$6,928,353	$ 1,031,542

4. LONG-TERM DEBT AND OTHER NONCURRENT LIABILITIES (continued)

In January 2001, the System issued $7,100,000 of General Obligation Bonds, Series 2001 dated January 15, 2001, to construct, equip and furnish a new hospital building, expand and remodel the existing medical clinic, and demolish the existing hospital building.

In December 2006, the System issued $5,630,000 in general obligation bonds to advance refund $5,390,000 of outstanding General Obligation Bonds, Series 2001 (Refunded Bonds). Net proceeds of $5,588,389 of the General Obligation Refunding Bonds, Series 2006 were deposited in escrow to provide for the payment of interest on the Refunded Bonds until February 1, 2009, on which date principal of $5,390,000 of the Refunded Bonds, and accrued interest thereon, was redeemed from monies held in the escrow. As a result, $5,390,000 of then outstanding General Obligation Bonds, Series 2001 were considered to be defeased in 2006.

The advance refunding reduced the System's aggregate debt service payments by $102,583 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of $102,326.

The remaining General Obligation Bonds, Series 2001 mature in various amounts ranging from $255,000 to $280,000 beginning on February 1, 2007 with the final payment due on February 1, 2009. Interest, at 7.25%, is due semiannually on February 1 and August 1 beginning on February 1, 2007. Interest expense on the bonds was $–0– and $1,692 for 2010 and 2009, respectively.

General Obligation Refunding Bonds, Series 2006 mature in various amounts ranging from $35,000 to $565,000 beginning on February 1, 2008 with the final payment due on February 1, 2022. Interest, at rates ranging from 3.85% to 4.25%, is due semiannually on February 1 and August 1 beginning on February 1, 2007. Interest expense on the bonds was $214,784 and $227,959 for 2010 and 2009, respectively.

The Board of Directors of the System are to make proper provision for the payment of principal and interest of the general obligation bonds, in whole or in part, by a tax levy.

Annual funding requirements to maturity for the general obligation bonds are as follows:

4. LONG-TERM DEBT AND OTHER NONCURRENT LIABILITIES (continued)

	Principal	Interest	Total
Year ending December 31:			
2011	$ 340,000	$ 206,372	$ 546,372
2012	350,000	191,710	541,710
2013	360,000	176,623	536,623
2014	375,000	161,004	536,004
2015	400,000	144,535	544,535
2016	420,000	127,950	547,950
2017	435,000	111,382	546,382
2018	460,000	93,700	553,700
2019	480,000	74,900	554,900
2020	505,000	55,200	560,200
2021	535,000	34,133	569,133
2022	565,000	11,583	576,583
	$ 5,225,000	$ 1,389,092	$ 6,614,092

Certificates of participation dated July 1, 2005 in the amount of $735,000 were issued pursuant to a lease purchase agreement between the System, as lessee, and UMB Bank, N.A. as trustee and lessor. The lease purchase agreement provides for basic rent payments to be paid semi-annually beginning on December 1, 2005 with the final payment due on June 1, 2015. Interest rates on the certificates range from 3.20% to 4.25%. Interest expense under the lease purchase agreement was $17,884 and $20,465 for the years ended December 31, 2010 and 2009, respectively. The certificates of participation were issued to finance the acquisition of an existing long-term care facility.

The System leased certain equipment under capital lease agreements, including a new lease of $371,489 in 2009. Interest expense under the capital lease agreements was $3,297 and $2,668 for the years ended December 31, 2010 and 2009, respectively.

These leases qualify as capital leases for accounting purposes and, accordingly, have been recorded at the present value of the minimum lease payments at the date of lease inception.

The following is an analysis of the financial presentation of the above capital leases:

	December 31,	
	2010	2009
Land	$ 26,266	$ 26,266
Buildings	535,209	535,209
Movable equipment	380,456	380,456
	941,931	941,931
Accumulated depreciation	242,664	146,061
	$ 699,267	$ 795,870

4. LONG-TERM DEBT AND OTHER NONCURRENT LIABILITIES (continued)

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of December 31, 2010:

Year ending December 31,	
2011	$ 166,754
2012	163,716
2013	165,519
2014	109,726
2015	91,913
Total minimum lease payments	697,628
Less amount representing interest	48,874
Present value of net minimum lease payments	$ 648,754

5. PENSION PLAN

The System maintains a defined contribution pension plan for its employees. Upon employment, all employees are eligible to participate in the plan. The plan requires that the employee contribute 5% and the employer contribute 9% of the employee's compensation. Benefits are 100% vested upon participation in the plan. Pension cost, which is funded as accrued, was $665,399 and $730,018 for the years ended December 31, 2010 and 2009.

6. CONCENTRATIONS OF CREDIT RISK

The System grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payers was as follows:

	December 31, 2010	December 31, 2009
Medicare	$ 391,454	$ 427,257
Medicaid	25,359	65,451
Commercial	489,007	1,132,494
Private pay	1,209,204	668,725
Gross accounts receivable	2,115,024	2,293,927
Less allowance for doubtful accounts	787,537	807,054
	$ 1,327,487	$ 1,486,873

6. CONCENTRATIONS OF CREDIT RISK (continued)

State statutes place no limit on the amount the System may invest in any one issuer as long as the investments are adequately secured (Note 3). The System's allocation of cash and investments by depository as of December 31, 2010, is as follows:

Fowler State Bank	84%
Meade State Bank	2%
Plains State Bank	14%

7. RESTRICTED NET ASSETS

Restricted, expendable net assets consist of cash and cash equivalents and are available for the following purposes:

	December 31, 2010	December 31, 2009
HIPAA programs	$ 7,075	$ 7,424
Debt service for general obligation bonds	397,401	412,694
	$ 404,476	$ 420,118

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes for the following:

	December 31, 2010	December 31, 2009
HIPAA programs	$ 7,424	$ 7,282
Debt service for general obligation bonds	555,717	553,629
	$ 563,141	$ 560,911

8. OTHER POST EMPLOYMENT BENEFITS

As provided by K.S.A. 12-5040, the Hospital is required to allow qualifying retirees to participate in the group health insurance plan. While each retiree is required to pay the full amount of the applicable premium, conceptually, the Hospital is subsidizing the retirees because each participant is charged a level premium regardless of age. However, the cost of the subsidy, if any, has not been quantified in these financial statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the Hospital makes health care benefits available to eligible former employees and their eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid entirely by the insured and there is no cost to the Hospital under this plan.

9. CAPITAL ASSETS

Capital asset additions, disposals, and balances for the years ended December 31, 2010 and 2009 were as follows:

	Balance At December 31, 2009	Additions	Disposals	Balance At December 31, 2010
Capital assets not being depreciated:				
Land	$ 86,142	$ –	$ –	$ 86,142
Capital assets being depreciated:				
Land improvements	1,278,116	–	–	1,278,116
Buildings and fixed equipment	7,669,538	9,762	–	7,679,300
Movable equipment	4,966,004	336,278	–	5,302,282
Total capital assets being depreciated	13,913,658	346,040	–	14,259,698
Less accumulated depreciation for:				
Land improvements	393,365	60,243	–	453,608
Buildings and fixed equipment	2,534,405	402,349	–	2,936,754
Movable equipment	3,444,089	353,343	–	3,797,432
Total accumulated depreciation	6,371,859	815,935	–	7,187,794
Total capital assets being depreciated, net	7,541,799	(469,895)	–	7,071,904
Total capital assets, net	$ 7,627,941	$ (469,895)	$ –	$ 7,158,046

9. CAPITAL ASSETS (continued)

	Balance At December 31, 2008	Additions	Disposals	Balance At December 31, 2009
Capital assets not being depreciated:				
Land	$ 86,142	$ –	$ –	$ 86,142
Capital assets being depreciated:				
Land improvements	1,211,026	67,090	–	1,278,116
Buildings and fixed equipment	7,572,363	97,175	–	7,669,538
Movable equipment	4,446,316	519,688	–	4,966,004
Total capital assets being depreciated	13,229,705	683,953	–	13,913,658
Less accumulated depreciation for:				
Land improvements	336,222	57,143	–	393,365
Buildings and fixed equipment	2,127,313	407,092	–	2,534,405
Movable equipment	3,087,538	356,551	–	3,444,089
Total accumulated depreciation	5,551,073	820,786	–	6,371,859
Total capital assets being depreciated, net	7,678,632	(136,833)	–	7,541,799
Total capital assets, net	$ 7,764,774	$ (136,833)	$ –	$ 7,627,941

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

Generally Accepted Accounting Principles (GAAP) establishes a single authoritative definition of fair value, sets a framework for measuring fair value and requires additional disclosures about fair value measurements. Financial instruments that are measured and reported at fair value are classified and disclosed in one of the following categories based on inputs:

10. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

- Level 1 – Quoted market prices are available in active markets for identical instruments as of the reporting date.
- Level 2 – Pricing inputs are observable for the instruments, either directly or indirectly, as of the reporting date, but are other than quoted prices in active markets as in Level 1.
- Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument.

The following methods and assumptions were used by the System in estimating the fair value of its financial instruments:

Cash and cash equivalents – The carrying amounts reported in the balance sheet for cash and cash equivalents approximates its fair value.

Accounts receivable – The carrying amounts reported in the balance sheet for accounts receivable approximates fair value because of the short-term nature of those instruments.

Estimated third-party payor settlements – The carrying amounts reported in the balance sheet for estimated third-party payor settlements approximates fair value because of the short-term nature of those instruments.

Accounts and other payables – The carrying amounts reported in the balance sheet for accounts and other payables approximates their fair value because of the short-term nature of those instruments.

Capitalized lease obligations – The fair value of these liabilities is estimated using discounted cash flow analyses, based on the interest rate implicit in the lease agreements.

General obligation bonds – The carrying amounts reported in the balance sheet for the bonds is their face value which approximates their fair value.

The carrying amounts and fair value of the System's financial instruments at December 31, 2010 and 2009 are as follows:

10. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	December 31, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 2,542,830	$ 2,542,830	$ 2,047,879	$ 2,047,879
Accounts and other receivables	1,366,252	1,366,252	1,521,814	1,521,814
Estimated third-party payor settlements	82,878	82,878	513,311	513,311
Accounts and other payables	688,329	688,329	546,468	546,468
Capitalized lease obligations	648,754	648,754	791,921	791,921
General obligation bonds	5,225,000	5,225,000	5,560,000	5,560,000

11. SUBSEQUENT EVENT

In February 2011, an amendment to the state Medicaid plan was approved that provides for additional reimbursements to be made to operators of long-term care facilities. The Kansas Department on Aging has notified the System that it anticipates that approximately $185,000 in additional reimbursements will be paid to the System in 2011.

ADDITIONAL INFORMATION

ARTESIAN VALLEY HEALTH SYSTEM

a/k/a MEADE HOSPITAL DISTRICT

OPERATION AND MAINTENANCE FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL – BUDGETARY BASIS

Year ended December 31, 2010

	Original Budget	Final Budget	Actual Amounts Budgetary Basis	Variance With Final Budget Positive (Negative)
Revenues:				
Net patient service revenue	$ 13,176,076	$ 13,176,076	$ 12,322,030	$ (854,046)
Taxes	303,184	303,184	310,887	7,703
Other	421,849	421,849	217,479	(204,370)
Total revenues	13,901,109	13,901,109	12,850,396	(1,050,713)
Expenditures:				
Salaries	7,946,095	7,946,095	7,114,527	831,568
Employee benefits	1,739,289	1,739,289	1,841,187	(101,898)
Supplies and contractual services	5,640,006	5,640,006	3,735,047	1,904,959
Capital outlay	458,103	458,103	507,309	(49,206)
Transfers to Employee Benefits Fund	50,000	50,000	–	50,000
Total expenditures	15,833,493	15,833,493	13,198,070	2,635,423
Excess of revenue over (under) expenditures	(1,932,384)	(1,932,384)	(347,674)	1,584,710
Fund balance, beginning of year	2,765,626	2,765,626	3,101,467	335,841
Fund balance, end of year	$ 833,242	$ 833,242	$ 2,753,793	$ 1,920,551

ARTESIAN VALLEY HEALTH SYSTEM

a/k/a MEADE HOSPITAL DISTRICT

EMPLOYEE BENEFITS FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL – BUDGETARY BASIS

Year ended December 31, 2010

	Original Budget	Final Budget	Actual Amounts Budgetary Basis	Variance With Final Budget Positive (Negative)
Revenues:				
Taxes	$ 121,558	$ 121,558	$ 125,179	$ 3,621
Transfers from operations and maintenance fund	50,000	50,000	–	(50,000)
Total revenues	171,558	171,558	125,179	(46,379)
Expenditures – Employee benefits	166,558	166,558	125,179	41,379
Excess of revenue over (under) expenditures	5,000	5,000	–	(5,000)
Fund balance, beginning of year	–	–	–	–
Fund balance, end of year	$ 5,000	$ 5,000	$ –	$ (5,000)

ARTESIAN VALLEY HEALTH SYSTEM

a/k/a MEADE HOSPITAL DISTRICT

DEBT SERVICE FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL – BUDGETARY BASIS

Year ended December 31, 2010

	Original Budget	Final Budget	Actual Amounts Budgetary Basis	Variance With Final Budget Positive (Negative)
Revenues – Taxes	$ 525,535	$ 525,535	$ 540,423	$ 14,888
Expenditures:				
Principal payments on bonds	335,000	335,000	335,000	–
Interest payments bonds	570,716	570,716	220,716	350,000
Total expenditures	905,716	905,716	555,716	350,000
Excess of revenue over (under) expenditures	(380,181)	(380,181)	(15,293)	364,888
Fund balance, beginning of year	425,181	425,181	412,694	(12,487)
Fund balance, end of year	$ 45,000	$ 45,000	$ 397,401	$ 352,401

ARTESIAN VALLEY HEALTH SYSTEM

a/k/a MEADE HOSPITAL DISTRICT

SCHEDULE OF PATIENT SERVICE REVENUE

	Year ended December 31,			
	2010			2009
	Inpatient	Outpatient	Total	Total
Adults and pediatrics	$ 662,313	$ 220,145	$ 882,458	$ 1,137,973
Swing beds	195,365	–	195,365	276,545
Long-term care unit	2,323,972	–	2,323,972	2,244,669
Operating room	331,218	906,339	1,237,557	1,462,386
Anesthesiology	118,223	216,909	335,132	349,818
Radiology	308,192	1,645,912	1,954,104	2,406,487
Laboratory	609,128	1,550,832	2,159,960	2,753,380
Respiratory therapy	574,521	145,877	720,398	1,095,969
Physical therapy	112,889	742,126	855,015	722,810
Cardiac rehabilitation	–	13,280	13,280	9,920
Electrocardiology	26,667	74,085	100,752	136,367
Medical supplies	1,218,462	338,190	1,556,652	1,807,308
Pharmacy	780,259	324,159	1,104,418	1,545,502
Home health	–	122,596	122,596	111,887
Home medical equipment	–	431,417	431,417	413,095
Emergency room	20,062	213,295	233,357	229,608
Heritage	–	141,978	141,978	334,917
Rural health clinic	4,150	1,429,393	1,433,543	1,671,070
Gross patient service revenue	$ 7,285,421	$ 8,516,533	15,801,954	18,709,711
Contractual adjustments			(2,934,064)	(4,068,273)
Charity care			(120,000)	(92,240)
Bad debts			(425,860)	(503,131)
Net patient service revenue			$ 12,322,030	$ 14,046,067

ARTESIAN VALLEY HEALTH SYSTEM

a/k/a MEADE HOSPITAL DISTRICT

SCHEDULE OF OPERATING EXPENSES BY FUNCTIONAL DIVISION

	Year ended December 31, 2010							
Department	Salaries	Employee benefits	Purchased services	Medical supplies and drugs	Other supplies/ expense	Depreciation	Total	Percent of total operating expenses
Routine service:								
Adult and pediatrics	$ 1,124,490	$ –	$ –	$ –	$ 56,889	$ 52,436	$ 1,233,815	9.05 %
Long-term care unit	1,935,687	–	9,451	46,852	377,019	12,458	2,381,467	17.45
	3,060,177	–	9,451	46,852	433,908	64,894	3,615,282	26.50
Ancillary services:								
Operating room	222,007	–	–	–	26,645	71,151	319,803	2.34
Anesthesiology	–	–	218,912	–	22,909	3,714	245,535	1.80
Radiology	231,430	–	–	–	114,250	85,880	431,560	3.16
Laboratory	266,099	–	57,004	–	386,753	45,476	755,332	5.53
Respiratory therapy	162,209	–	–	5,349	17,487	1,969	187,014	1.37
Physical therapy	271,361	–	–	–	31,871	6,891	310,123	2.27
Cardiac rehabilitation	8,528	–	–	–	834	–	9,362	0.07
Electrocardiology	3,474	–	–	–	58	8,534	12,066	0.09
Medical supplies	33,811	–	–	790,673	–	–	824,484	6.04
Pharmacy	79,277	–	17,893	242,555	–	28	339,753	2.49
Home health	150,294	–	–	–	13,540	1,039	164,873	1.21
Home medical equipment	62,304	–	–	23,592	–	839	86,735	0.64
Emergency room	176,658	–	–	–	8,011	2,171	186,840	1.37
Heritage	41,737	–	168,000	–	1,815	863	212,415	1.56
Rural health clinic	1,135,134	–	–	13,924	116,771	6,057	1,271,886	9.32
	2,844,323	–	461,809	1,076,093	740,944	234,612	5,357,781	39.26
General services:								
Administration and general	641,965	–	109,421	–	377,438	22,989	1,151,813	8.44
Operation of plant	72,640	–	–	–	300,060	2,613	375,313	2.75
Laundry	60	–	–	–	–	6,503	6,563	0.05
Housekeeping	98,776	–	–	–	47,482	–	146,258	1.07
Dietary	144,037	–	5,832	–	72,210	11,002	233,081	1.71
Nursing administration	70,632	–	–	–	1,954	63	72,649	0.53
Medical records	122,054	–	659	–	23,444	9,962	156,119	1.14
Social services	–	–	3,000	–	–	–	3,000	0.02
Fitness	59,863	–	–	–	21,194	705	81,762	0.60
Employee benefits	–	1,966,366	–	–	–	–	1,966,366	14.41
Debt cost amortization	–	–	–	–	–	18,362	18,362	0.13
Depreciation - building	–	–	–	–	–	462,592	462,592	3.39
	1,210,027	1,966,366	118,912	–	843,782	534,791	4,673,878	34.24
	$ 7,114,527	$ 1,966,366	$ 590,172	$ 1,122,945	$ 2,018,634	$ 834,297	$ 13,646,941	100.00 %

Department	Salaries	Employee benefits	Purchased services	Medical supplies and drugs	Other supplies/ expense	Depreciation	Total	Percent of total operating expenses
	Year ended December 31, 2009							
Routine service:								
Adult and pediatrics	$ 1,309,455	$ –	$ 32,126	$ –	$ 82,204	$ 59,846	$ 1,483,631	9.67 %
Long-term care unit	1,979,382	–	37,599	44,255	386,224	14,864	2,462,324	16.08
	3,288,837	–	69,725	44,255	468,428	74,710	3,945,955	25.75
Ancillary services:								
Operating room	252,776	–	–	–	50,318	64,744	367,838	2.40
Anesthesiology	–	–	245,709	–	6,673	–	252,382	1.65
Radiology	286,014	–	–	–	188,320	78,050	552,384	3.61
Laboratory	329,391	–	3,135	–	542,756	46,497	921,779	6.02
Respiratory therapy	187,258	–	–	5,140	23,286	2,610	218,294	1.43
Physical therapy	186,929	–	1,683	–	56,337	6,041	250,990	1.64
Cardiac rehabilitation	4,809	–	–	–	18	–	4,827	0.03
Electrocardiology	2,522	–	–	–	15	8,534	11,071	0.07
Medical supplies	40,324	–	–	882,559	–	–	922,883	6.03
Pharmacy	84,795	–	16,651	331,065	–	28	432,539	2.82
Home health	153,842	–	–	–	17,835	1,039	172,716	1.13
Home medical equipment	68,134	–	3	24,183	1,316	914	94,550	0.62
Emergency room	218,077	–	–	–	4,197	2,171	224,445	1.47
Heritage	100,031	–	296,546	–	3,065	863	400,505	2.62
Rural health clinic	1,420,057	–	–	7,885	157,284	13,910	1,599,136	10.44
	3,334,959	–	563,727	1,250,832	1,051,420	225,401	6,426,339	41.98
General services:								
Administration and general	718,472	–	71,316	–	619,492	26,835	1,436,115	9.38
Operation of plant	105,674	–	–	–	228,246	3,812	337,732	2.21
Laundry	15,812	–	–	–	6,967	3,319	26,098	0.17
Housekeeping	109,701	–	–	–	33,884	462	144,047	0.94
Dietary	159,226	–	4,231	–	71,527	11,470	246,454	1.61
Nursing administration	72,371	–	–	–	–	63	72,434	0.47
Medical records	126,784	–	5,768	–	27,432	9,962	169,946	1.11
Social services	–	–	3,000	–	–	–	3,000	0.02
Fitness	60,935	–	–	–	3,756	517	65,208	0.43
Employee benefits	–	1,957,131	–	–	–	–	1,957,131	12.78
Debt cost amortization	–	–	–	–	–	18,977	18,977	0.12
Depreciation - building	–	–	–	–	–	464,235	464,235	3.03
	1,368,975	1,957,131	84,315	–	991,304	539,652	4,941,377	32.27
	$ 7,992,771	$ 1,957,131	$ 717,767	$ 1,295,087	$ 2,511,152	$ 839,763	$ 15,313,671	100.00 %